

City of Southfield

Schedule of Expenditures of Federal Award

Programs in Accordance with OMB Circular A-133

June 30, 2005

City of Southfield
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**Report of Independent Auditors on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and Members of the City Council
City of Southfield, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southfield, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated May 5, 2006.

This report is intended solely for the information and use of the City's City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PriceWaterhouseCoopers LLP

May 5, 2006

**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Honorable Mayor and Members of the City Council
City of Southfield, Michigan

Compliance

We have audited the compliance of the City of Southfield (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 requires that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in item 05-1 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding eligibility that are applicable to its Section 8 Housing Choice Vouchers Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 05-1.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2005, and have issued our report thereon dated May 5, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City's City Council, Management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PriceWaterhouseCoopers LLP

May 5, 2006

City of Southfield
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

	Grant Award Number	Federal CFDA Number	Current-Year Federal Expenditures
Federal grant funds distributed directly to the City of Southfield, Michigan			
U. S. Department of Housing and Urban Development			
Community Development Block Grants			
SHIP (Southfield Home Improvement Program) and other income		14.218 *	\$ 152,634
2002 Entitlement	B-02-MC-260012	14.218 *	105,729
2003 Entitlement	B-03-MC-260012	14.218 *	2,164
2004 Entitlement	B-04-MC-260012	14.218 *	178,678
2005 Entitlement	B-05-MC-260012	14.218 *	438,379
Section 8 Housing Choice Vouchers Program	MI097V00005	14.871 *	1,049,885
Total U.S. Department of Housing and Urban Development			1,925,467
U.S. Department of Health and Human Services			
Michigan Works			
Passed through Oakland County Private Industrial Council			
Temporary Assistance to Needy Families	FY-03-04	93.558 *(1)	21,733
Temporary Assistance to Needy Families	FY-04-05	93.558 *(1)	124,776
Total U.S. Department of Health and Human Services			146,509
U. S. Department of Labor			
Michigan Works			
Passed through Oakland County Private Industry Council			
Reed Act	FY-03-04	17 *(1)	80,070
Reed Act	FY-04-05	17 *(1)	92,280
Employment Services	FY-03-04	17.207 *(1)	6,962
Employment Services	FY-04-05	17.207 *(1)	304,459
Welfare-to-Work Grants to States and Localities	FY-03-04	17.253 *(1)	22,337
Welfare-to-Work Grants to States and Localities	FY-04-05	17.253 *(1)	63,004
Workforce Investment Act - Adult Program	FY-04-05	17.258 *(1)	297,196
Workforce Investment Act - Youth Activities	FY-04-05	17.259 *(1)	106,214
Workforce Investment Act - Dislocated Workers	FY-04-05	17.260 *(1)	500,893
Total U. S. Department of Labor			1,473,417
U.S. Department of Homeland Security			
Passed through Michigan Department of State Police			
Emergency Management Performance Grant	FEMA-EMPG	97.042	29,178
State Domestic Preparedness Equipment Support Program		97.004	271,477
Total U.S. Department of Homeland Security			300,655
U. S. Department of Justice			
Local Law Enforcement Block Grant - 2003	2003-LB-BX-0851	16.592	26,457
Local Law Enforcement Block Grant - 2004	2004-LB-BX-0087	16.592	51,363
Local Law Enforcement Block Grant - 2005	2005-DB-BX-0052	16.592	27,631
Public Safety Partnership and Community Policing Grants	2003-QM-WX-0219	16.710	38,482
Passed through Michigan Department of Community Health			
Byrne Formula Grant	2004-1274	16.579	69,929
Total U.S. Department of Justice			213,862
U.S. Department of Transportation, Federal Highway Administration			
Pass through Michigan Department of Transportation			
Highway Planning and Construction 2005		20.205	63,003
U.S. Corporation for National and Community Service			
Pass through Michigan Department of Labor and Economic Growth			
State Commissions 2005		94.003	24,413
Total federal financial assistance			\$ 4,147,326

* Denotes major program.

(1) Denotes a cluster

City of Southfield
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified		
Internal control over financial reporting			
Material weakness(es) identified?	_____	yes	<u> X </u> no
Reportable condition(s) identified not considered to be material weaknesses?	_____	yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____	yes	<u> X </u> no

Federal Awards

Internal control over major programs?			
Material weakness(es) identified?	_____	yes	<u> X </u> no
Reportable condition(s) identified not considered to be material weaknesses?	<u> X </u>	yes	_____ none reported
Type of auditor's report issued on compliance for major programs	Qualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u> X </u>	yes	_____ no

Identification of major programs

CFDA Number(s)

14.218
14.871

Name of Federal Program or Cluster

Community Development Block Grants
Section 8 Housing Choice Vouchers Program

Clusters

93.558, 17.207, 17.253,
17.258, 17.259, 17.260

WIA Cluster

Temporary Assistance to Needy Families, Reed Act,
Employment Services, Welfare-to-Work Grants to States
and Localities, Workforce Investment Acts - Adult, Youth
and Dislocated Workers

Dollar threshold used to distinguish
between Type A and Type B programs

\$ 300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

City of Southfield
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section II - Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

Current-Year Findings

Section 8 Housing Choice Vouchers Program, CFDA 14.871

Finding 05-01 - Missing Third Party Verification of Family Income

The City of Southfield (the "City") did not maintain documentation of third party income verification for two program participants.

According to 24 CFR section 982.516, the Public Housing Authority ("PHA") must, for both family income examinations and reexaminations, obtain and document in the family file third party verification of: (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income based rent.

City management was unsuccessful in producing documentation of income verification from the third party, resulting in the City's noncompliance with the eligibility requirement.

Recommendation

We recommend management implement a system of controls and processes to effectively obtain the third party verification of income, as well as to maintain and secure the documentation in the participant file. We further recommend performing a periodic internal file review by a person other than the direct file handler to insure compliance.

Management Response

Management has implemented an improved checklist for processing information on annual recertification's interim adjustments on new Housing Assistance Payments Contracts. This checklist further requires the completer to document the completion of required procedures for the income verification and retain this supporting information in the program participant's file.

City of Southfield
Schedule of Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2005

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.